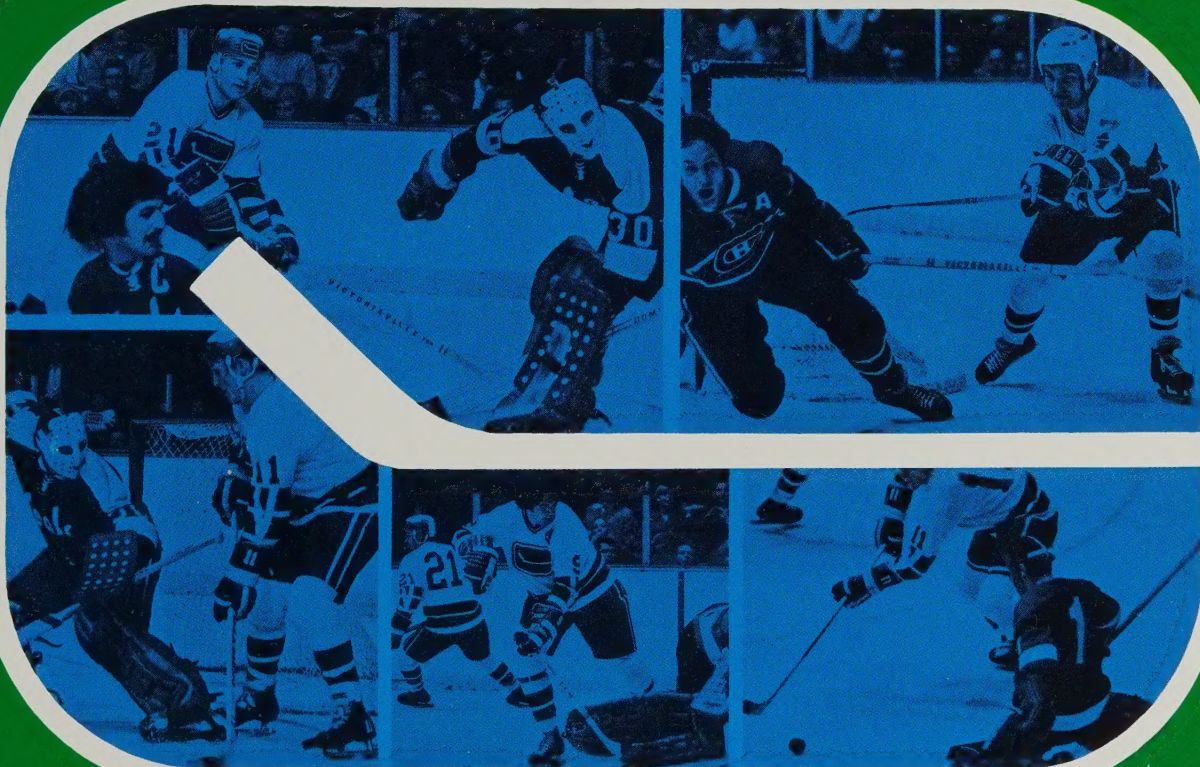


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NORTHWEST SPORTS ENTERPRISES LTD.



ANNUAL REPORT 1972

NORTHWEST SPORTS ENTERPRISES LTD.

Pacific Coliseum, Exhibition Park
100 Renfrew Street N., Vancouver 6, B.C.

Directors

Cyrus H. McLean — Chairman
Thomas K. Scallen
Lyman D. Walters
Coleman E. Hall
John S. Maguire, Q.C.

Officers

Cyrus H. McLean — Chairman of the Board
Thomas K. Scallen — President and Treasurer
Lyman D. Walters — Senior Vice-President
Norman R. (Bud) Poile — Vice-President
Oscar F. Lundell, Q.C. — Secretary

Transfer agent and registrar

Montreal Trust Company

Underwriter

Royal Securities Corporation Limited

Auditors

Deloitte, Haskins & Sells

REPORT TO SHAREHOLDERS

Thirty-nine regular league games and thirty-nine sellouts — that in itself explains the success with which the Vancouver Hockey Club has met in its infant years as a National Hockey League member city.

Consolidated earnings for the year ended June 30, 1972 before extraordinary item amounted to \$494,091, which represents earnings per share of \$.49 based on the weighted daily average number of shares issued and outstanding during the year ended June 30, 1972, or \$.49 per share on a fully diluted basis.

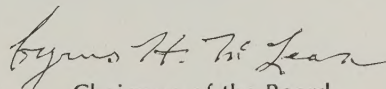
The extraordinary item results from proceeds received through the N.H.L. expansion in Long Island, New York and Atlanta, Georgia. Consolidated earnings for the year ended June 30, 1972 after extraordinary item amounted to \$1,103,034, which represents earnings per share of \$1.10 based on the weighted daily average number of shares issued and outstanding during the year ended June 30, 1972, or \$1.00 on a fully diluted basis.

Operating losses for minor league franchises in Seattle and Rochester resulted in the decrease in net profits before extraordinary item for the year.

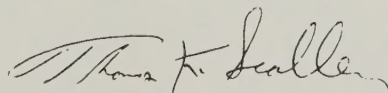
It is important to note that the Vancouver Hockey Club Ltd., a wholly-owned subsidiary, has not yet received a final ruling from the Department of National Revenue on the deductibility for income tax purposes of amounts spent to purchase player contracts at the National Hockey League expansion draft in June of 1970. This company has made full provision for income taxes against its earnings for the year ended June 30, 1972. However, in management's opinion, a favourable ruling is expected which will result in a deduction or elimination of current liability for income taxes of that company.

All available seating has been completely sold out for the entire 1972-73 season at the Pacific Coliseum. The average attendance, including general admission, during the 1971-72 season at the home games of the Vancouver Canucks, represented 100% of the maximum seating capacity.

Reflecting our highly successful year of operation, the directors were pleased to declare a dividend of 25 cents per share payable August 25, 1972 to shareholders of record August 22, 1972.


Chairman of the Board

Vancouver, B.C.
November 10, 1972


President

CONSOLIDATED BALANCE SHEET AS AT JUNE 30, 1972 (with 1971 figures for comparison)**ASSETS**

	1972	1971
CURRENT ASSETS:		
Cash and term deposits	\$ 1,087,289	\$ 202,667
Short-term interest-bearing securities — at cost which approximates market value	25,000	3,501,041
Accounts receivable	63,923	56,461
Current portion of notes receivable (Note 5)	54,261	116,059
Prepaid expenses and other (Note 3)	263,374	181,677
Due from parent company	10,548	13,648
Total current assets	<u>1,504,395</u>	<u>4,071,553</u>
INVESTMENTS:		
Franchises and rights to players (Note 4)	8,362,376	8,265,275
Investment and equity in hockey leagues	79,885	81,955
Other investments — at cost	10,053	—
Total investments	<u>8,452,314</u>	<u>8,347,230</u>
OTHER ASSETS:		
Notes receivable, less current portion shown above (Note 5)	673,330	81,164
Leasehold improvements and equipment (Note 6) less accumulated depreciation and amortization (1972 — \$50,521; 1971 — \$17,382)	112,551	119,316
Unamortized debenture discount and expenses (Note 9)	182,072	186,950
Incorporation costs	1,987	1,987
Total other assets	<u>969,940</u>	<u>389,417</u>
Total	<u>\$10,926,649</u>	<u>\$12,808,200</u>

APPROVED BY THE BOARD:

Cyrus H. McLean, Director

Thomas K. Scallen, Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1972	1971
CURRENT LIABILITIES:		
8¼ % note payable — bank	\$ —	\$ 30,702
Current portion of long-term debt, including accrued interest	236,183	1,117,082
Accounts payable and accrued charges	255,974	307,159
Income taxes (Note 7)	1,686,866	857,600
Deferred revenue on advance sale of tickets	1,492,189	1,570,643
Due to affiliated companies	12,158	—
Deferred income taxes (Note 7)	89,970	72,200
Total current liabilities	<u>3,773,340</u>	<u>3,955,386</u>
 DEFERRED INCOME TAXES (Note 7)	 230,000	 52,600
 LONG-TERM DEBT:		
Due to the NHL, the WHL and their member clubs (Note 8), less current portion shown above	388,614	3,118,550
8½ % convertible subordinated debentures due November 15, 1990 (Note 9)	1,999,300	2,000,000
Total long-term debt	<u>2,387,914</u>	<u>5,118,550</u>
 SHAREHOLDERS' EQUITY (Notes 9 and 14):		
Share capital:		
Authorized:		
2,000,000 common shares without nominal or par value		
Issued and fully paid:		
1,000,070 (1971 — 1,000,000) common shares	2,714,595	2,713,895
Retained earnings	1,820,800	967,769
Total shareholders' equity	<u>4,535,395</u>	<u>3,681,664</u>
Total	<u>\$10,926,649</u>	<u>\$12,808,200</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 1972 (with 1971 figures for comparison)

	1972	1971
REVENUE:		
Game ticket sales	\$ 3,854,375	\$ 3,649,067
Radio and television rights	662,571	578,022
Program sales and advertising	359,452	337,238
Novelty sales and other	222,142	227,911
Interest income (including \$145,152 from parent and affiliated companies in 1971)	193,394	169,184
Total revenue	<u>5,291,934</u>	<u>4,961,422</u>
EXPENSES:		
Operating and cost of sales:		
Team costs	1,702,513	1,523,269
Rent	395,560	372,747
Other hockey expenses	258,983	204,696
Radio and television	78,838	45,397
Program sales and advertising	154,438	139,044
Novelty sales and other	160,778	151,786
General and administrative	731,820	692,896
Interest on long-term debt	349,253	318,589
Other expenses	200,360	181,793
Total expenses	<u>4,032,543</u>	<u>3,630,217</u>
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	<u>1,259,391</u>	<u>1,331,205</u>
PROVISION FOR INCOME TAXES (Note 7):		
Current	757,330	704,135
Deferred	7,970	16,350
Total provision for income taxes	<u>765,300</u>	<u>720,485</u>
INCOME BEFORE EXTRAORDINARY ITEM	<u>494,091</u>	<u>610,720</u>
EXTRAORDINARY ITEM (Note 5)	<u>608,943</u>	—
NET INCOME FOR THE YEAR (Note 11)	<u>1,103,034</u>	<u>610,720</u>
RETAINED EARNINGS AT BEGINNING OF THE YEAR	<u>967,769</u>	<u>397,527</u>
COMMON SHARE ISSUE EXPENSES	<u>2,070,803</u>	<u>1,008,247</u>
	—	40,478
DIVIDENDS PAID	<u>250,003</u>	—
RETAINED EARNINGS AT END OF THE YEAR	<u>\$ 1,820,800</u>	<u>\$ 967,769</u>

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED JUNE 30, 1972 (with 1971 figures for comparison)

	1972	1971
FUNDS PROVIDED:		
Funds provided from operations representing net income for the year after adjusting for items not requiring an outlay of funds	\$ 715,389	\$ 615,976
Issue of 8½ % convertible subordinated debentures (net of related discount and issue expenses of \$192,760)	—	1,807,240
Issue of common shares (net of related issue expenses of \$40,478 charged direct to retained earnings)	—	1,517,862
Reduction in non-current portion of notes receivable	16,237	120,215
Reduction in franchises and rights to players — adjustment of capitalized interest	—	11,061
Total funds provided	<u>731,626</u>	<u>4,072,354</u>
FUNDS APPLIED:		
Investment in partially-owned subsidiary (Note 1)	146,429	—
Working capital deficiency of partially-owned subsidiary at the date of acquisition	486,455	—
Other investment	10,053	—
Additions to leasehold improvements and equipment — net	9,261	124,870
Reduction in non-current portion of long-term debt (net of discount of \$490,278 in 1972)	2,208,731	1,056,750
Dividends paid	250,003	—
Other	5,806	7,701
Total funds applied	<u>3,116,738</u>	<u>1,189,321</u>
(DECREASE) INCREASE IN WORKING CAPITAL	(2,385,112)	2,883,033
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE YEAR	116,167	(2,766,866)
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR	<u>\$ (2,268,945)</u>	<u>\$ 116,167</u>

The accompanying notes are an integral part of the consolidated financial statements.

AUDITORS' REPORT

To the Shareholders of
Northwest Sports Enterprises Ltd.:

We have examined the consolidated balance sheet of Northwest Sports Enterprises Ltd. and its subsidiaries as at June 30, 1972 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the company and its subsidiaries as at June 30, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

November 1, 1972
Vancouver, British Columbia

DELOITTE, HASKINS & SELLS
Chartered Accountants

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1972

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all subsidiaries, all of which are wholly-owned except as noted, as follows:

Vancouver Hockey Club Ltd. (Vancouver Hockey)
 Rochester Americans Hockey Club 1969, Inc. (Rochester Americans)
 Seattle Totems Hockey Club, Inc. (Seattle Totems)
 (55.56% acquired during the year)
 Canucks Publishing Ltd.
 Burrard Hockey Club Ltd. (inactive)

All acquisitions have been accounted for by the purchase method.

As to Seattle Totems, which operates a professional hockey team in the Western Hockey League (WHL), the company's 55.56% interest in the outstanding shares of that company was acquired as of February 1, 1972, by an agreement dated April 7, 1972. As at the date of acquisition, Seattle Totems had a net capital deficiency of \$434,015, the full amount of which is assumed, for accounting purposes, by the majority shareholder (the company). The excess amount paid by the company over the underlying equity of the Seattle Totems of \$580,444 has been allocated to its franchise in the WHL and its rights to players, as shown below:

Excess of total liabilities over total assets	\$ (434,015)
Adjustment of the carrying value of franchise and rights to players in the WHL to estimated fair market value	580,444
Adjusted net assets representing the cash paid by the company for its investment	<u>\$ 146,429</u>

The operations of Seattle Totems for the five months ended June 30, 1972 have been fully consolidated in the consolidated statement of income and retained earnings and no amount of the losses which were incurred have been charged to minority interests.

Reference is made to Note 4 for the practice followed in accounting for the cost of franchises and rights to players.

2. FOREIGN EXCHANGE:

Assets, liabilities, revenues and expenses of the company's U.S. subsidiaries, Rochester Americans and Seattle Totems, and those of the company and its Canadian subsidiaries which are maintained in U.S. dollars, have been translated to Canadian dollars at the following rates of exchange:

- Current assets and liabilities — at the rate of exchange prevailing at the balance sheet date.
- Non-current assets and liabilities — at the rate of exchange prevailing at the date the company acquired the shares in the U.S. subsidiaries or at the date of later transactions.
- Revenue and expenses — at the average exchange rate during the year.

3. PREPAID EXPENSES:

Each year Vancouver Hockey incurs significant costs and earns some revenue prior to June 30 which apply to the operations of the hockey team in the next NHL season. It is that company's practice to include such net costs in prepaid expenses and charge them against income in the next succeeding fiscal period.

As at June 30, 1972 such costs amounted to \$169,348 (1971 — \$144,496, net of revenue deferred on the sale of players in the June draft of \$15,000). The balance of \$94,026 (1971 — \$37,181) represents other expenses paid in advance in the ordinary course of the business, inventory of novelties and deposits.

4. FRANCHISES AND RIGHTS TO PLAYERS:

Subsidiaries of the company own franchises and rights to players in the National Hockey League (NHL), the Western Hockey League (WHL) and the American Hockey League (AHL)

(see note 14(b)). These franchises and rights to players are recorded at cost, which includes the following:

- In the case of the NHL, the indemnification liability to the WHL and its member clubs and interest due to NHL member clubs to October 1, 1970 less a discount on prepayment of the related long-term debt prior to maturity.
- In the case of the WHL, an increase in the net book value at the date of acquisition of Seattle Totems (see Note 1).
- In the case of the AHL, a reduction on account of tax savings arising from the application of losses incurred prior to the date of acquisition of Rochester Americans.

For accounting purposes, it is the practice of the companies not to amortize the original cost of franchises and of rights to players against income. Additional costs of rights to players are expensed as acquired and the proceeds of sale of rights to players are credited to income as sold.

On February 1, 1972 the company and Vancouver Hockey were parties to an agreement with the WHL and its member clubs whereby Vancouver Hockey was granted the right to activate and/or relocate its present inactive franchise in the WHL at any time after the company divests itself of its entire interest in the capital stock of its subsidiary, Seattle Totems, provided that no such activation shall occur earlier than the earliest of the two following dates:

- The date that an NHL franchise is granted for the City of Seattle, Washington; or
- Two years from the date of this agreement.

Vancouver Hockey will have all the rights of a full member of the WHL while its franchise is inactive, except that:

- its right to vote, attend or participate in League meetings will be restricted except for matters relating to certain Articles of the League By-laws.
- it will not be entitled to share in indemnities due or to become due from NHL expansion into other WHL cities or in distributions (except capital) made to members.
- it will not be required to pay any assessments made upon members of the League.

Further, if an NHL franchise is awarded to the City of Seattle, Seattle Totems may relocate its WHL franchise without cost.

5. NOTES RECEIVABLE:

This amount includes the following:

	Principal Amount	
	Current Portion	Long-Term Portion
Receivable by Rochester Americans for territorial indemnification granted to members of the AHL on account of NHL expansion in 1970	\$16,236	\$ 64,927
Receivable by Vancouver Hockey for NHL expansion in 1972 — see below	38,025	608,403
	<u>\$54,261</u>	<u>\$673,330</u>

During the year, Vancouver Hockey received a one-fourteenth share of the aggregate price to be paid as a result of NHL franchises being awarded to Long Island, New York and Atlanta, Georgia as follows:

Total company's share	\$857,143
Cash received	210,715
Long-term notes receivable received in consideration of the balance	<u>\$646,428</u>

Vancouver Hockey's share (net of income taxes thereon of \$248,200 — see Note 7 A (iii)) has been reflected as an extra-

ordinary gain in the accompanying consolidated statement of income and retained earnings.

The long-term notes receivable bear interest ranging from 1% above the prime rate charged by a given bank on dates specified in the note agreement to 7.75% and are repayable in varying annual instalments through to 1992.

6. LEASEHOLD IMPROVEMENTS AND EQUIPMENT:

Leasehold improvements and equipment are generally stated at cost.

It is the subsidiaries' practice to provide for amortization of leasehold improvements on a straight-line basis over the term of leases and to provide for depreciation of furniture and fixtures and the various categories of equipment on the straight-line basis at the rate of 20% per annum. The amount so provided during the year was \$20,621 (1971 — \$11,655).

7. INCOME TAXES:

A. Current:

The current income taxes payable as shown in the accompanying consolidated balance sheet comprise the following:

Provision for proposed reassessments relating to the taxation years:	
June 30, 1966 to 1969 inclusive	\$ 131,000
June 30, 1970 (\$42,700, less instalments of \$5,000)	37,700
	<u>168,700</u>
Provision on net income relating to the taxation years:	
June 30, 1971 (\$704,135, less instalments of \$15,235)	\$688,900
June 30, 1972 (\$818,330, including \$61,000 relating to extraordinary income from NHL expansion plus refunds less payments of \$10,936)	829,266
	<u>\$1,518,166</u>
	<u>\$1,686,866</u>

(i) The Department of National Revenue — Taxation Division (the Department) has informed Vancouver Hockey that it proposes, on reassessment, to increase its reported taxable income for the taxation years ended June 30, 1966 to 1970 inclusive by a total of approximately \$1,075,300 as follows:

Include the indemnification receivable in the 1967-68 NHL expansion as taxable income	\$ 255,000
Disallow the deduction of the indemnification liability to the WHL incurred when the NHL franchise was acquired in 1970	775,300
Disallow miscellaneous expenses incurred throughout the four year period	45,000
	<u>\$1,075,300</u>

The question of the taxability and deductibility of indemnification receipts and indemnification liabilities respectively has been deferred and is to be reviewed along with Vancouver Hockey's request to amortize the original cost of franchises and rights to players as discussed below. Although management disagrees with the Department's proposed treatment of these matters and feel they can support the position that the indemnification receipt of \$255,000 was a non-taxable capital item and that the indemnification liability of \$775,300 was incurred to earn income, they have made full provision in the accounts for the possible income tax effects of the proposed reassessments as follows:

- Provision for income taxes of \$131,000 on the indemnification receivable of \$255,000 was made as a retro-active adjustment to consolidated retained earnings during the year ended June 30, 1971.
- The indemnification liability of \$775,300 which was claimed for income tax purposes in 1970 and which created a loss carry forward for income tax purposes of approximately \$676,200 as at June 30, 1970 was not taken into consideration in calculating the provision for income taxes for financial statement purposes at that date thereby providing for the tax on income if the claim is disallowed.

(ii) Management is confident that Vancouver Hockey will obtain a favourable ruling from the Department to allow it

to amortize the original cost of franchises and rights to players against income for income tax purposes. The tax savings resulting from a favourable ruling would not flow through as a credit to income in the years in which the amounts were amortized or in any other year. The tax savings would be realized, however, in the form of a decrease in current income taxes payable and consequently in an increase in working capital.

To conform with generally accepted accounting principles, Vancouver Hockey has not anticipated the amount of tax savings which it may realize from this ruling and has correspondingly included its total provision for current income taxes for the years ended June 30, 1971 and 1972 aggregating \$1,495,300 in current liabilities. This current liability could be reduced or eliminated depending on the amount of the amortization allowed and the period over which the amount will be amortized. Reference is made to (iii) below.

(iii) Reference is made to Note 5 regarding extraordinary income of \$857,143 earned during the year as a result of NHL expansion whereby a franchise and players' rights were awarded to two new hockey teams who will be playing in the NHL commencing with the 1972-73 season.

Based on the results of past negotiations of another member club of the NHL with the Department of National Revenue relating to the taxability of income from the 1967 NHL expansion, and based on the provisions of the Income Tax Act, Vancouver Hockey has provided for income taxes on \$532,500 of this extraordinary income as follows:

Current income taxes	\$ 61,000
Deferred income taxes:	
Current	\$ 11,050
Non-current	176,150
	<u>187,200</u>
	<u>\$248,200</u>

Although Management has provided estimated income taxes on the above basis, it intends to review the taxability of this extraordinary income with the Department along with the matters discussed in (i) and (ii) above.

B. Deferred:

Deferred income taxes comprise the following:

(i) Current:

\$ 78,920	on account of costs deferred to the 1972-73 NHL season (see Note 3)
11,050	on account of the current portion of Notes Receivable from the 1972 NHL expansion (reference is made to A (iii) above)
<u>\$ 89,970</u>	

(ii) Non-Current:

\$ 56,800	on account of interest costs capitalized as part of the cost of the franchise and rights to players in the National Hockey League (see Note 4)
176,150	on account of the long-term portion of Notes Receivable from the 1972 NHL expansion (reference is made to A (iii) above)
(2,950)	— a deferred income tax debit on account of other timing differences between accounting and taxable income
<u>\$230,000</u>	

C. Tax Losses:

The company and its U.S. subsidiaries have tax losses to be carried forward, on an accounting basis, of approximately \$34,800 and U.S. \$636,300 respectively of which \$6,700 and U.S. \$533,900 were incurred during the year. Of the tax losses of U.S. \$636,300, U.S. \$230,400 relates to losses incurred by Seattle Totems prior to the date of acquisition. The potential tax reduction attributable to such losses has not been recognized in the accounts. Should any of the tax losses of Seattle incurred prior to the date of acquisition be utilized, the tax reduction resulting therefrom will be credited to Seattle's franchise and rights to players on consolidation.

Depending on the outcome of the negotiations with the Department regarding the deductibility of the indemnification liability of \$775,300 discussed under A (i) (b) above, Vancouver Hockey may have losses available for carry forward purposes of approximately \$676,200 on a tax filing basis, as filed in 1970.

8. DUE TO THE NHL, THE WHL AND THEIR MEMBER CLUBS:

During the year, Vancouver Hockey repaid, prior to maturity, eleven of the twelve long-term notes payable to the NHL member clubs and two of the six long-term notes payable to the WHL and its member clubs at a discount of \$490,278, which amount has been credited against the cost of franchises and rights to players (see Note 4).

The balance of the liability related to the NHL franchise agreement and related player purchase plan agreement, and related to an indemnity to the WHL and its Member Clubs, aggregating \$607,747 as at June 30, 1972 is repayable in the years ending June 30:

1973	\$219,133
1974	132,570
1975	132,570
1976	61,737
1977	61,737

Interest is payable at the prime rate charged by the banks designated in the three agreements covering the debt outstanding.

The company has pledged as collateral security for \$148,300 of this outstanding debt all the outstanding share capital of its subsidiaries except for Canucks Publishing Ltd. and Seattle Totems.

The company and its U.S. subsidiary, Rochester Americans, have also guaranteed \$148,300 of this indebtedness.

9. DEBENTURES:

The 8½% Convertible Subordinated Debentures, Series A, maturing November 15, 1990 (the Debentures) are, in the opinion of counsel, direct obligations of the company, but are not secured by any mortgage, pledge or other charge. The Trust Indenture (the Indenture) permits the company to issue additional debentures subject to certain restrictive covenants regarding the issue of funded obligations. The Indenture also restricts payment of dividends (other than stock dividends) by permitting them to be paid only out of consolidated net income (exclusive of proceeds from the sale of investments and fixed assets) earned subsequent to June 30, 1970, subject to certain provisions relating to redemption and sale of capital stock. Consolidated net income (as defined) earned subsequent to June 30, 1970, amounts to \$1,713,754 and the company has paid dividends to June 30, 1972, aggregating \$250,003.

The Indenture also provides for, among other things, the following essential features:

- The right to redeem the Debentures for other than sinking fund purposes, at prices equal to varying percentages of the principal amount (plus accrued and unpaid interest).
- Payment to the Trustee as a sinking fund on or before November 15 in each of the years 1981 to 1989 inclusive, of an amount sufficient to retire \$200,000 principal amount of the Debentures in each of those years.
- Conversion of each \$100 principal amount of the Debentures at the holder's option, at any time up to November 14, 1990, or the close of business on the business day immediately preceding the date fixed for redemption of such Debentures, whichever is earlier, into 10 fully paid and non-assessable common shares of the company (\$700 principal amount was converted during the year). The company has reserved 199,930 unissued common shares for the exercise of the conversion privilege attached to the remaining Debentures.
- Subordination of payment of the Debentures to the prior payment in full of all senior indebtedness, defined to include current liabilities, present or future, on liquidation or other distribution of the assets of the company.

The debenture discount and related issue expenses incurred in connection with this issue have been deferred in the accompanying consolidated balance sheet and are being amortized against income (1972 — \$10,684; 1971 — \$5,810) over the life of the Debentures based on the dollar amount of the Debentures outstanding after adjusting for redemptions, conversions and sinking fund payments.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate remuneration paid or payable by the company and its subsidiaries to directors of the company during the year in their capacity as officers and directors (as required by the Companies Act, British Columbia) amounted to \$63,000 (1971 — \$60,000).

The aggregate remuneration paid or payable by the company and its subsidiaries to directors and senior officers of the company during the year (as required by The Securities Act, 1966, Ontario) amounted to \$130,500 (1971 — \$111,200).

11. EARNINGS PER SHARE:

	1972		1971	
	Income Before Extra-ordinary Items	Net Income	Income Before Extra-ordinary Items	Net Income
Basic earnings per share	\$ <u>.49</u>	\$ <u>1.10</u>	\$ <u>.67</u>	\$ <u>.67</u>
Fully diluted earnings per share	\$ <u>.49</u>	\$ <u>1.00</u>	\$ <u>.64</u>	\$ <u>.64</u>
Daily weighted average number of shares outstanding		<u>1,000,070</u>		<u>912,329</u>

The fully diluted earnings per share have been calculated on the assumption that all of the 8½% Convertible Subordinated Debentures, Series A, had been converted into common shares as of December 8, 1970, the date of issue of such debentures. In calculating the fully diluted earnings per share the incomes before extraordinary items and the net incomes for the years ended June 30, 1972 and 1971 were increased by the amount of the interest on debentures, net of applicable income taxes, and the number of shares was adjusted for the daily weighted average of additional shares that would have been outstanding on conversion.

12. LEASE COMMITMENTS AND CONTINGENCIES:

A. Leases:

Vancouver Hockey is committed under a long-term lease to 1983 for premises for the playing of professional hockey, at the following rates, based on gross gate receipts:

- 15% up to \$1,000,000
6½% between \$1,000,000 and \$2,300,000
10% in excess of \$2,300,000
- 10% from exhibition games
- 15% from play-off games

The company has an option to renew the lease for a further term of ten years at rental rates to be negotiated.

B. Legal Actions Pending:

(a) A shareholder of the company has filed suit against the company and its directors who held office at the date of signing of a prospectus on November 13, 1970 claiming that the defendants acted fraudulently or were negligent in not disclosing a material transaction and a proposed material transaction in the prospectus for which the shareholder is claiming unspecified damages and costs of the action. The company and the directors named in the suit deny each and every allegation of fact contained in the statement of claim and submit that the action should be dismissed with costs. It is the opinion of legal counsel that this action against the company will not succeed.

(b) A number of actions have been commenced in the United States against the NHL and its member clubs (of which Vancouver Hockey has been named) for damages and costs allegedly sustained by the plaintiffs by reason of alleged violations of United States anti-trust laws and for other relief.

A United States anti-trust action has also been brought against Vancouver Hockey in connection with the refusal of the NHL to transfer another NHL franchise to Vancouver.

At this time it is impossible for management or legal counsel to give any estimation of the chances of success or failure, or of the amount of damages which may be assessed, or other remedies which may be enforced, in the event of failure.

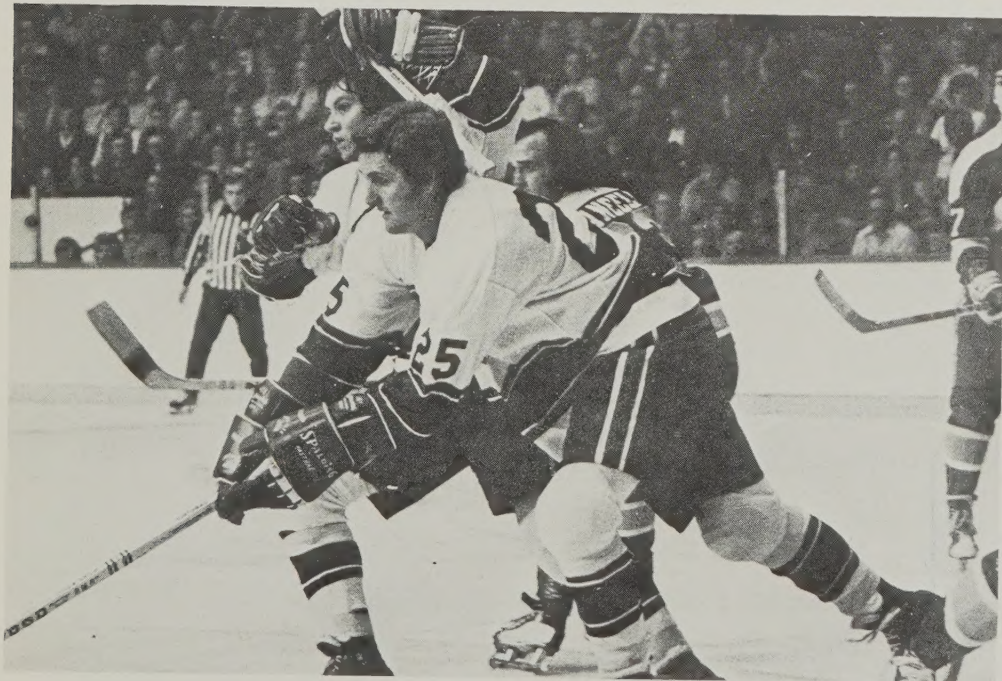
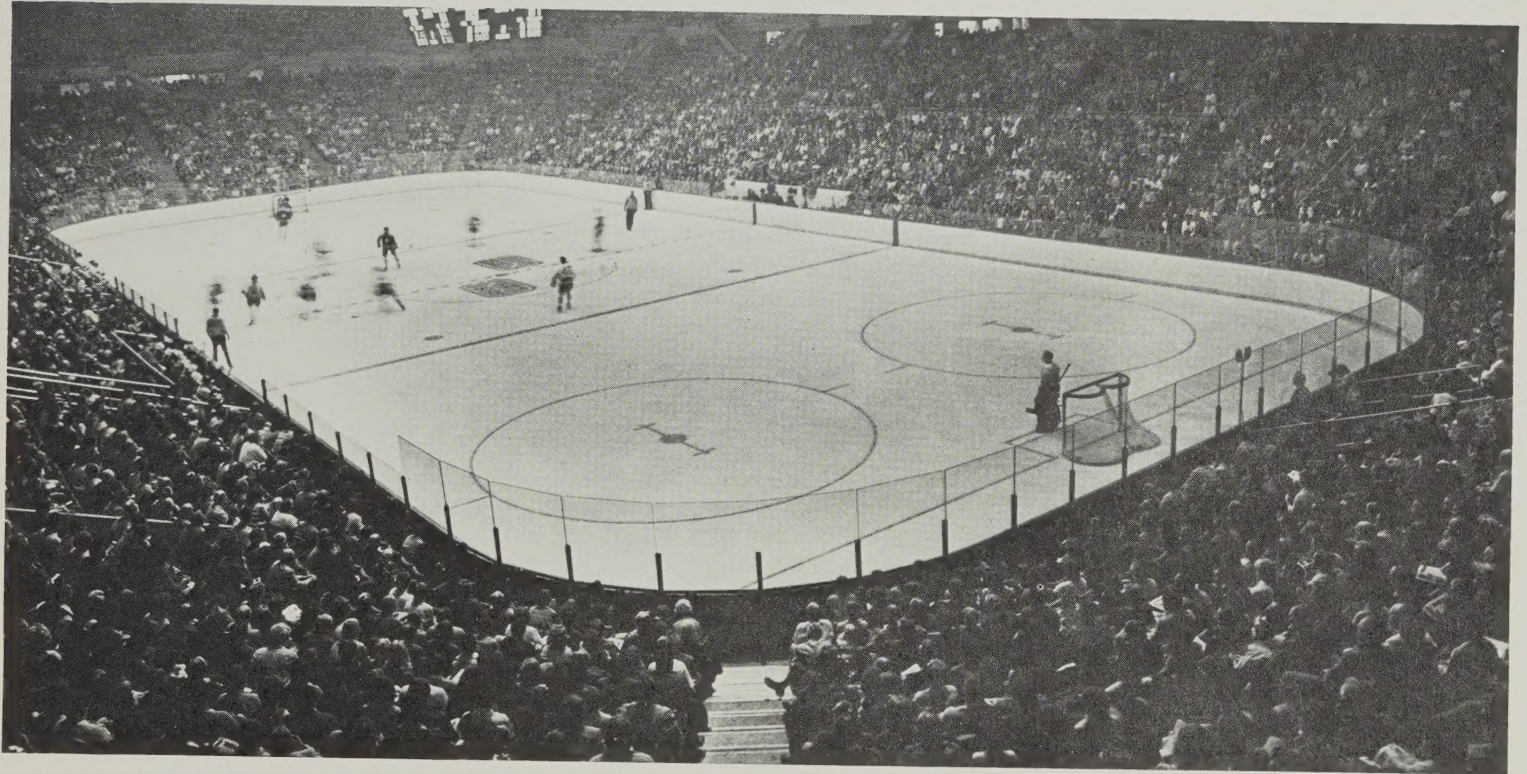
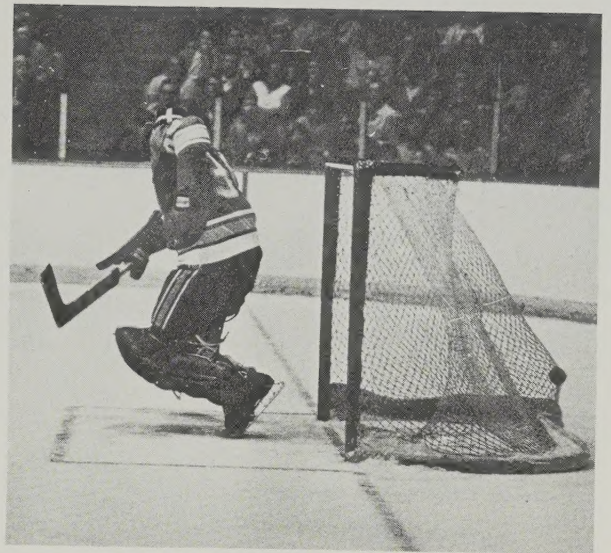
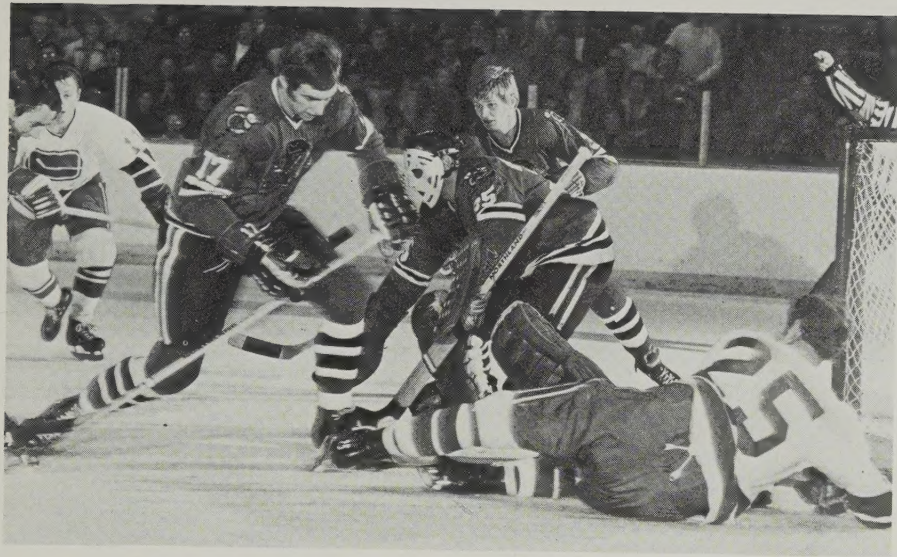
13. COMPARATIVE FIGURES:

Certain of the 1971 figures provided for purposes of comparison have been restated to conform with the classifications used in the current year.

14. SUBSEQUENT EVENTS:

(a) Subsequent to June 30, 1972, the company declared a dividend of \$.25 per share payable on August 25, 1972 to shareholders of record on August 22, 1972.

(b) By agreement dated July 6, 1972, the company's U.S. subsidiary, Rochester Americans, sold its franchise in the AHL and certain equipment for \$200,000.





vancouver
canucks

MEMBER OF



Notes to the Consolidated Financial Statements

December 31, 1972

1. Accounting Practices:**(a) Revenue:**

The Company, through two subsidiary companies, operates the Vancouver Canucks in the National Hockey League and the Seattle Totems in the Western Hockey League. Revenue from ticket sales is earned exclusively from games played at each team's home arena. As a result, for interim reporting purposes, revenue will vary with the scheduled dates of home games drawn each year for each league. To December 31, 1971, the Vancouver Canucks had played 20 of 39 (1971 - 19 of 39) regular season home games, 18 of 39 (1971 - 16 of 39) regular season away games, whereas the Seattle Totems had played 19 of 36 home games and 12 of 36 away games.

1971 does not include the revenue for the Seattle Totems which was acquired as of February 1st, 1972, but it includes the revenue of the Rochester Americans playing in the American Hockey League. (Subsequently sold.) In the six months ended December 31, 1971, Rochester Americans had played 17 of 36 home games and 17 of 36 away games.

Revenue from sales of program advertising and radio and T.V. rights is credited to income on the basis of the applicable home games played. To December 31, 1972, the Vancouver Canucks had 4 home games televised (1971 - 5 games).

(b) Prepaid Expenses:

During the 1972 period, the Vancouver Canucks deferred certain material direct costs amounting to \$236,168 (1971 - \$163,560) which will be charged against future revenue on either a home game by game or monthly basis, depending upon the nature of the expense over the last half of the company's fiscal year.

During 1972, the method of charging the cost of Player Purchases against revenue at the start of the N.H.L. season was changed to charge these costs against revenue over the entire season. This change will not affect the fiscal earnings of the company, but will affect the second and third quarter earnings. The comparative figures for 1971 have been restated to reflect this change.

2. Earnings Per Share:

The earnings per share have been calculated using the number of shares issued and outstanding during the respective periods. The fully diluted earnings per share have been calculated on the assumption that all of the 8½% convertible subordinate debentures series A had been converted into common shares as of December 8, 1970, the date of issue of such debentures. In calculating the fully diluted earnings per share, the net income for the 1972 period was increased by the interest on debentures net of income taxes.

Canucks

NORTHWEST SPORTS ENTERPRISES LTD.

VANCOUVER CANUCKS

MEMBER OF NATIONAL HOCKEY LEAGUE

REPORT TO SHAREHOLDERS

SIX MONTHS ENDED

DECEMBER 31, 1972



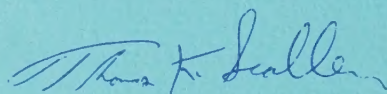
Northwest Sports Enterprises Ltd.

Pacific Coliseum, 100 North Renfrew Street, Vancouver 6, B.C.

Report to the Shareholders

Earnings for the second quarter were up 1.0 cents per share for the same period one year ago, due primarily to increased revenues from four additional home games played in two hockey leagues in the first half of this year compared to the corresponding period last year. However, T.V. revenue is down from a year ago because there has been one less televised game than for the corresponding period a year ago.

Earnings per share, based on the weighted daily average number of shares issued and outstanding during the six month period ended December 31, 1972, amounted to 36.2¢ per share, and 34.0¢ per share on a fully diluted basis. This compares to earnings per share of 35.2¢ for the same period one year ago, and 33.2¢ per share on a fully diluted basis.



THOMAS K. SCALLEN
President

Northwest Sports Enterprises Ltd.

and its subsidiaries

Consolidated Statement of Income

For the six months ended December 31, 1972
(with 1971 figures for comparison)

	1972	1971
Revenue (Note 1):		
Game ticket sales	\$2,123,500	\$1,871,800
Program advertising, and radio and T.V. rights, net	414,600	487,500
Interest income	58,400	131,800
Sundry-net	100	34,600
	<u>\$2,596,600</u>	<u>\$2,525,700</u>
Expenses (Note 1):		
Operating:		
Team costs	\$ 869,400	\$ 771,600
Rent	199,800	196,300
Other	79,800	106,000
General and administrative	404,400	356,500
Interest and long term debt	99,800	205,500
Other expenses (income) net	226,500	55,900
	<u>\$1,879,700</u>	<u>\$1,691,800</u>
Income before income taxes	\$ 716,900	\$ 833,900
Provision for income taxes	355,300	480,900
Net income for the period	<u>\$ 361,600</u>	<u>\$ 353,000</u>
Earnings per share (Note 2)	36.2¢	35.2¢
Fully diluted earnings per share	34.0¢	33.2¢

Northwest Sports Enterprises Ltd. and its subsidiaries

Consolidated Statement of Source and Application of Funds

For the six months ended December 31, 1972
(with 1971 figures for comparison)

	1972	1971
Funds Provided:		
Funds provided from operations representing net income after adjusting for items not requiring an outlay of funds	\$350,800	\$365,500
Proceeds from disposal of franchise and equity in American Hockey League	83,367	-
Proceeds from disposal of leasehold improvements and equipment (net)	3,567	-
Reduction in non-current portion of indemnifications receivable	-	17,600
	<u>\$437,734</u>	<u>\$383,100</u>

Funds Applied:

Additions to leasehold improvements and equipment	\$ 9,027	\$ 2,900
Reduction in non-current portion of long-term debt (net of discount of \$32,803)	97,562	155,100
8½ % convertible subordinated debentures purchased	28,800	-
Dividends paid	500,035	250,000
Additional expenses related to the issue in 1970 of 8½ % convertible subordinated debentures (net of related discount and issue expenses)	-	5,800
Reduction in long-term portion of deferred income taxes	-	1,500
Sundry investments	-	10,100
	<u>\$ 635,424</u>	<u>\$425,400</u>
Increase (decrease) in working capital	<u>\$ (197,690)</u>	<u>\$ (42,300)</u>
Working capital (deficiency) at beginning of the year	<u>(2,268,945)</u>	<u>116,100</u>
Working capital (deficiency) at end of year	<u><u>\$(2,466,635)</u></u>	<u><u>\$ 73,800</u></u>